



THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT OF 2003: *GIVING AMERICANS MORE CONTROL OVER THEIR HEALTH CARE CHOICES & HARD EARNED DOLLARS*

Background

For too long, America's seniors and individuals with disabilities have struggled to acquire the medications they so desperately need. Signed into law by President George W. Bush, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (PL 108-173) will provide prescription drug coverage to over 40 million Medicare beneficiaries for the first time in the program's history. Additionally, the new law creates Health Savings Accounts (HSAs) to help American families save for current and future health care expenses, giving them more control over their health care choices and hard earned dollars. This historic, bipartisan agreement helps lay the foundation for a strong and modern Medicare for today's seniors, as well as tomorrow's seniors.

How Do Health Savings Accounts (HSAs) Work?

- ***HSAs are tax-deductible savings accounts, which may be opened to cover current and future health expenses. HSAs are effective January 1, 2004.*** Similar to an Individual Retirement Account (IRA), HSAs allow participants to save their hard earned dollars to pay for a health insurance deductible and any co-payments (i.e. medical services, prescription drugs, or products). Moreover, participants may use HSA funds to purchase over-the-counter drugs and long-term care insurance, and health insurance premiums during any period of unemployment.
- ***HSAs are open to individuals covered by a high deductible insurance plan.*** For 2004, a high deductible insurance plan is defined as a health plan with a minimum deductible of \$1,000 for individual coverage and \$2,000 for family coverage. The maximum out-of-pocket expenses for allowed costs must be no more than \$5,000 for individual coverage and no more than \$10,000 for family coverage.
- ***Contributions to HSAs are tax-deductible. Even the interest and investment earnings generated in the HSAs are tax-exempt.*** Individuals, employees, and their employers may contribute tax-deductible funds to an HSA. These funds belong to the individual or employee. For 2004, annual contribution limits are capped at either the high deductible or \$2,600 for individuals and \$5,150 for families (whichever amount is less). The law also allows individuals over age 55 to make additional contributions to their accounts (\$500 in 2004, increasing annually to \$1,000 in 2009).
- ***HSA funds are not taxable as long as they are used to pay for qualified medical expenses.*** These funds belong to the individual. If an individual changes jobs, then the HSA goes with the individual. Likewise, the individual may withdraw funds for any purpose. However, if funds are withdrawn for reasons other than qualified medical expenses by someone under age 65, then the

amount withdrawn will be taxable and subject to a 10% penalty. After age 65, the amount withdrawn is not subject to a 10% penalty, but it is taxable.

How Do Health Savings Accounts (HSAs) Differ from Medical Savings Accounts (MSAs)?

- ***HSAs are a significant expansion of the MSA program. HSAs are open to everyone with a high deductible insurance plan, including employers of all sizes, employees, the self-employed, individuals, and families.*** Traditionally, MSA eligibility has been limited to small business employees and self-employed individuals. However, HSAs provide *all* Americans with greater control over their health choices. The new law ensures that all Americans will be able to take advantage of this innovative savings vehicle as soon as January 1, 2004.
- ***HSAs offer broader deductible ranges and allow larger tax-deductible contributions. Employers, employees, or a combination of both may make contributions to an HSA.*** While expanding eligibility requirements, HSAs enhance saving capacity by allowing tax-deductible contributions from individuals, their employers, or both. By eliminating onerous restrictions, millions of Americans can change the way they save for future health care expenses and enjoy the tax advantages.
- ***Existing MSA accounts may be “grandfathered” or moved to an HSA.*** MSAs are scheduled to end December 31, 2003. However, individuals with existing MSAs may choose to retain them or roll the funds over into a new HSA.
- ***HSAs are permanent and portable, remaining with the individual at all times.*** HSAs are not dependent upon a particular employer, allowing individuals to enjoy the tax advantages of an HSA regardless of potential job changes. Each year unused funds remain in the account tax-free and accrue interest. These unused funds roll over from year to year.

As mentioned, Health Savings Accounts (HSAs) became effective January 1, 2004. By making HSAs permanent and available to all consumers, Americans now have greater control over their hard earned dollars and health care choices. HSAs provide Americans with an improved savings vehicle, so that they may receive the health care services they need and deserve at an affordable price. The United States Department of the Treasury has already issued guidance on the new Health Savings Accounts. Please visit them at <http://www.ustreas.gov> for additional information.